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Report Highlights:

The Danish dairy industry remains at previous year's level of production and trade. The merger to Europe's largest dairy, Arla Foods, between Danish MD Foods and Swedish Arla creates opportunities for rationalization of production and increasing European markets by investments.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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EXECUTIVE SUMMARY

Out of Denmark's total milk production of 4.5 million metric tons, 12 percent or 590,000 MT is consumed as fresh milk. The balance is processed into cheese, butter and dry milk.

With Denmark exporting more than 80 percent of its dairy production, the specific production of different dairy commodities is determined by the markets. Although market conditions have changed with the disappearance of the Russian market, cheese exports continue to increase to EU markets now exceeding 70 percent of total exports, while butter exports are decreasing.

Danish dairy exports for 1999 amounted to \$1.5 billion, corresponding to 21 percent of Denmark's total agricultural exports.

The EU markets are increasingly the primary outlets for Denmark's dairy exports taking more than 70 percent. Major markets are UK, Saudi Arabia and Germany.

Denmark is successful in exporting all dairy production not used for domestic consumption, but at depressed prices.

Consumption of organic milk constitutes about 20 percent of all fresh milk, but is now growing at a reduced rate. Markets for organic dairy products in Germany and UK are being explored more aggressively.

Average Exchange rates: 1998: U.S.\$1 = DKK 6.70
1999: U.S.\$1 = DKK 6.98
May 2000: U.S.\$1 = DKK 8.30

SECTION I. SITUATION AND OUTLOOK

Production

The Danish milk quota of 4,454,411 MT for the 1999-00 (April to March) year was exceeded by 10,053 tons, corresponding to 0.4 percent. (Production figures in the PS&D table include 125,000 tons of milk used directly by the farmers for feed (calves and pigs) and 75,000 tons for farmers' own consumption. These figures are arbitrarily determined and have been used for many years.)

Milk production for CY 2000 is forecast to remain at the quota level.

Danish milk producers are in continuous rationalization and rapidly decreasing in numbers, thus increasing the dairy herds. Today there are 10,000 dairy farmers with an average of 65 dairy cows, producing 470 MT milk per year. It is forecast that within five to seven years the number of dairy farms will be reduced to 5,000 and herds will be between 100 and 200 cows.

Apart from domestic consumption of fluid milk, the milk and milk fat is used for other dairy products according to market demands. No Danish dairy products are sold to EU intervention stocks.

The production of Feta cheese varies with export opportunities. Following the stop of Feta cheese exports to Iran in 1996, exports have stabilized at about of third of the former level of about 75,000 MT and stands now at 24,485 MT of which 37 percent to other EU countries. Major recipients were Germany and Saudi Arabia with 5,971 MT and 5,101 MT respectively for 1999.

Production figures reflect production in tons regardless of butter fat content and may be misleading. According to the dairy industry, there is a deliberate move toward exports of higher fat content cheeses to counter EU export subsidy restrictions, reducing the quantities to be exported with restitutions.

Danish table butter statistics include only butter with a butterfat percentage of 82 percent, while the popular blended butter and vegetable oil product is not included in the statistical production figures. Production and consumption of "normal" table butter is decreasing, while production and consumption of the mixed products (spreadable with 25 percent vegetable and 75 percent butter fat) is increasing, thus leaving the total consumption of butterfat unchanged. PS&D table figures include industrial use. Production and trade figures of the Lurpak spreadable product are not publicized.

With reduced EU export restitutions on cheese exports, more milk is directed into production of nonfat dry milk. The final amount is dependent on cheese export opportunities, especially opportunities for Feta cheese exports.

Although organic milk consumption accounts for 20 percent of total fluid milk consumption, organic milk production only accounts for about 7.5 percent of total production. Organic milk is produced according to contracts, for 90 percent to former MD Foods, now Arla Foods. However, the dairy companies have been over optimistic in their consumption forecast and organic milk production exceeds consumption by more than 100 percent. By 2001 production contracts increase 64 percent to 360 million kg, corresponding to 260 million kg more than today's consumption. Surplus production is sold as ordinary milk if milkfat is not utilized for organic butter or cheese production. Organic butter and cheese consumption stands at three percent and two percent respectively of total production.

Organic milk producers are paid an additional 20 percent for their milk. This is based on a fixed government's subsidy of DKK 0.40 after a contract on organic production signed with the government and a variable surplus price paid by the dairies according to the amount of milk sold as organic (compared to organic milk sold as ordinary milk at a lower price). Surprisingly, organic producers are larger than an average ordinary milk producer.

Consumption

Danish fluid milk consumption increased in 1999 by 1.7 percent. The increase in low fat milk is more than offsetting the decline in full fat milk consumption. Consumption of organic milk constitute 20 percent of total fluid milk consumption. Recent year's increase in consumption of organic milk seem to have leveled off and is now forecast to only increase by a few percent per year. A DKK 50 million (\$6 million) campaign to increase organic milk consumption domestically and at export markets has been launched. 75 percent is financed by the dairies and the balance by the government.

Trade

Danish exports of dairy products in 1999 exceeded DKK 10 billion (U.S.\$ 1.6 billion), or DKK 108 million (\$ 15 million) below 1998 exports. Exports to EU countries continue to increase. Major markets are Germany, UK and Saudi Arabia.

The almost complete discontinuation of (butter) exports to Russia has put the EU dairy product markets under pressure and lowered prices at most markets. With declining sales to third country markets, bulk prices are declining. However, branded commodities seem to maintain existing prices.

Fluid milk imports are primarily a reflection of border trade and some imports by German owned supermarket chains. Imports are mainly from Germany. Exports are mainly for the U.S. troops in the former West Germany.

Cheese exports decreased by 2,750 MT (one percent). Exports to EU countries remained unchanged and amount to 70 percent of total cheese exports. Feta cheese exports decreased from 29,500 MT in 1998 to 24,500 MT in 1999. Major Feta cheese destinations were Germany, Saudi Arabia, and Yemen. In spite of the pressed situation, Denmark is able to maintain cheese exports to Japan of about 12,000 MT in the strong competition from Australia and New Zealand. Exports to U.S. increased by 3,000 MT to 14,300.

In general, butter and nonfat dry milk exports are considered residual after markets for cheese and dry milk have been saturated. Butter exports continue decreasing. Especially to U.K. However, traditionally butter exports are

replaced by the blended butter and vegetable product marketed under the name Lurpak spreadable. The exports are, reported by the exporter, MD Foods, an enormous success. Unfortunately export figures are kept secretly and not published in Danish trade statistics. According to press releases, Lurpak now possesses a market share of 30 percent of the total UK butter market, of which the Lurpak Spreadable has a share above 50 percent or about 10,000 MT. The export value of this product is estimated at DKK 300 million (\$45 million).

Butter imports are for industrial use only, mainly ice cream production, although some cheap imported butter is transferred to oil and reexported.

Due to mainly missing German cheese export opportunities for Russia, the EU Non-fat dry milk market is severely depressed and Germany is trying to sell excess quantities of non-fat dry milk in South European markets.

With the increasing production of organic milk and as the Danish market is saturated, the Arla Foods are looking for export markets for organic dairy products. Marketing studies reveal that organic demand is fast increasing in Germany and U.K. and Danish dairies have decided to exploit these marketing opportunities.

Although EU export restitutions still are utilized as a marketing tool, it is only exploited to about 2/3 of the allowable WTO quantities. Denmark now seems to have adjusted to this new regime as shown in the table below:

Development in EU (FEOGA) export restitutions. Million DKK

	1993	1994	1995	1996	1997	1998	1999
Cheese	1,253	1,098	920	577	297	270	284
Butter	220	218	301	218	652	226	246
Other 1)	974	1,057	924	702	633	799	761
Total	2,447	2,373	2,145	1,497	1,402	1,298	1,291

1) Mainly dry milk and non fat dry milk

Increasing international prices on dry milk and especially nonfat dry milk in combination with increasing dollar exchange rate have continuously decreased EU export restitutions the last year. For the sixth time since February 1999, EU restitutions were reduced May 4, 2000 by another 8.6 and 5.5 percent for dry milk and nonfat dry milk respectively, thus having been decreased by more than 30 percent.

Stocks

Danish butter and cheese stocks are not publicized and PS&D figures are OAA estimates.

EU intervention purchases are based on market prices falling below a certain level. The intervention price is still somewhat below Danish milk prices and Denmark is not foreseen to be included into the “intervention club”. This will take considerable amounts of butter out of the market for both private and public stocks. No Danish dairy products have since 1986 been purchased for EU intervention stocks. However, some 1999 nonfat dry milk exports include exports to German intervention stocks where prices are higher than in Denmark.

1999 decrease in exports of dry milk reflects increased competition with U.S. and Mexico in Venezuela and the East Asian markets.

Following the first case of BSE in a Danish cow February 28, 2000, Saudi Arabia decided early March to stop all beef and dairy product imports from Denmark although they are aware that WHO see no risk connected with dairy products, even where BSE is detected. Some other Gulf states followed Saudi Arabia, but their bans have now been lifted. Saudi Arabia is expected to lift their ban before June.

Policy

The Danish Government and the Danish agricultural organizations, especially the Danish Dairy Board, are not satisfied with the dairy component of the Agenda 2000 March 1999 agreement. Denmark wanted a more rapid orientation towards free trade including a gradual 30 % price decrease during the period year 2000 to 2006 and a 4 % quota increase during the same period. Denmark also supported a liquidation of the quota system by year 2006 and elimination of the intervention system.

In the WTO negotiations in December 1999 in Seattle, Denmark wanted correspondence between the existing EU dairy regime and the WTO rules. Although Denmark in principle is for a much freer world trade, the recent Agenda 2000 agreement will imply continued protection of the EU market. Worries include also that EU budget restriction may create further problems.

Marketing

The two largest Danish dairy companies, responsible for 90 percent of all milk intake, decided in March 1999 to merge, effective September 1999 into MD Foods (the existing name of the largest of the two companies). The company will then be the third largest in Europe.

Effective April 17, 2000 MD Foods merged with the Swedish dairy company Arla under the name Arla Foods. This company is Europe's largest dairy company with 19,000 employees and a turnover of DKK 36.5 billion (\$4.5 billion). How the company will use its force on the export markets are still uncertain. Most plans seem to concern rationalization of production facilities. A new cheese production facility is under construction in Denmark with a planned capacity of 50,000 MT per year.

The Danish Dairy Board finances Lurpak promotions on the export markets and certain milk promotion activities on the domestic market. The latter are mainly directed at maintaining the existing consumption level including school milk consumption. The 1999 budget for the Lurpak promotions were DK 20 million (\$2.8 million). The introduction of Lurpak Spreadable has increased the marketing activities. In the UK, TV advertising is concentrated in the southern UK and in Germany around Berlin and northern Germany.

SECTION II. STATISTICAL TABLES

Fluid Milk

PSD Table						
Country	Denmark					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)	(1000 MT)
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Cows In Milk	695	680	680	681	675	660
Cows Milk Production	4668	4668	4650	4656	4600	4630
Other Milk Production	0	0	0	0	0	0
TOTAL Production	4668	4668	4650	4656	4600	4630
Intra EC Imports	11	11	10	12	10	15
Other Imports	0	0	0	0	0	0
TOTAL Imports	11	11	10	12	10	15
TOTAL SUPPLY	4679	4679	4660	4668	4610	4645
Intra EC Exports	14	14	15	16	15	12
Other Exports	8	8	8	8	8	6
TOTAL Exports	22	22	23	24	23	18
Fluid Use Dom. Consum.	580	580	590	590	585	590
Factory Use Consum.	3952	3952	3922	3929	3877	3912
Feed Use Dom. Consum.	125	125	125	125	125	125
TOTAL Dom. Consumption	4657	4657	4637	4644	4587	4627
TOTAL DISTRIBUTION	4679	4679	4660	4668	4610	4645
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Denmark		
Commodity	Dairy, Milk, Fluid		
Time period	Calender Year	Units:	MT
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
		UK	7827
Saudi Arabia	4058	Saudi Arabia	6506
Germany	12170	Germany	3197
Greenland	1753	Greenland	1715
Greece	679	Greece	986
Spain	903	Spain	857
		United Arab Em.	404
		Kuwait	315
		Jordan	274
Faroe Islands	504	Faroe Islands	268
Total for Others	20067		22349
Others not Listed	2322		2108
Grand Total	22389		24457

Import Trade Matrix			
Country	Denmark		
Commodity	Dairy, Milk, Fluid		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Germany	12018	Germany	9397
Sweden	961	Sweden	1051
Netherlands	1177	Netherlands	771
Belgium	252	Belgium	697
		UK	2
Total for Others	14408		11918
Others not Listed	52		4
Grand Total	14460		11922

Cheese

PSD Table						
Country	Denmark					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	32	32	26	26	31	34
Production	289	289	288	293	290	295
Intra EC Imports	30	30	32	36	32	30
Other Imports	2	2	1	2	1	1
TOTAL Imports	32	32	33	38	33	31
TOTAL SUPPLY	353	353	347	357	354	360
Intra EC Exports	167	167	165	169	170	180
Other Exports	73	73	65	68	70	60
TOTAL Exports	240	240	230	237	240	240
Human Dom. Consumption	87	87	86	86	86	86
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	87	87	86	86	86	86
TOTAL Use	327	327	316	323	326	326
Ending Stocks	26	26	31	34	28	34
TOTAL DISTRIBUTION	353	353	347	357	354	360
Calendar Yr. Imp. from U.S.	3	3	3	0	3	0
Calendar Yr. Exp. to U.S.	11	11	11	8	11	10

Export Trade Matrix			
Country	Denmark		
Commodity	Dairy, Cheese		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.	11339	U.S.	14324
Others		Others	
Germany	85649	Germany	81814
UK	15168	UK	16172
Saudi Arabia	15230	Saudi Arabia	16156
Sweden	13069	Sweden	12906
Spain	10253	Spain	12104
Japan	13322	Japan	12041
Greece	11180	Greece	9789
Russia	2046	France	7915
Netherlands	7471	Netherlands	7392
Italy	6554		
Total for Others	179942		176289
Others not Listed	48240		46187
Grand Total	239521		236800

Import Trade Matrix			
Country	Denmark		
Commodity	Dairy, Cheese		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	3	U.S.	
Others		Others	
Germany	9783	Germany	13653
UK	4880	UK	6679
France	5337	France	6015
Netherlands	4013	Netherlands	2749
Belgium	2207	Belgium	2692
Sweden	833	Sweden	1050
New Zealand	778	New Zealand	589
Norway	428	Norway	576
Uruguay	250	Finland	309
Italy	2490	Italy	3054
Total for Others	30999		37366
Others not Listed	1006		
Grand Total	32008		37366

Butter

PSD Table						
Country	Denmark					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	0	0	0	0	0
Production	48	48	50	48	50	48
Intra EC Imports	15	15	14	14	14	9
Other Imports	4	4	4	4	4	1
TOTAL Imports	19	19	18	18	18	10
TOTAL SUPPLY	67	67	68	66	68	58
Intra EC Exports	26	26	28	23	29	25
Other Exports	17	17	17	16	17	15
TOTAL Exports	43	43	45	39	46	40
Domestic Consumption	24	24	23	27	22	18
TOTAL Use	67	67	68	66	68	58
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	67	67	68	66	68	58
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Denmark		
Commodity	Dairy, Butter		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.	112	U.S.	
Others		Others	
UK	19346	UK	15401
Saudi Arabia	6635	Saudi Arabia	5540
Germany	3918	Germany	3501
Lebanon	1666	Lebanon	1565
United Arab Em.	1648	United Arab Em.	1450
Belgium	574	Iran	1423
Russia	511	Russia	1274
Italy	1052	Italy	1078
Kuwait	1107	Kuwait	819
Turkey		Turkey	750
Total for Others	36457		32801
Others not Listed	6831		6615
Grand Total	43400		39416

Import Trade Matrix			
Country	Denmark		
Commodity	Dairy, Butter		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Belgium	2961	Belgium	4769
Sweden	3807	Sweden	3250
New Zealand	3681	New Zealand	2601
Finland	1600	Finland	2062
Germany	947	Germany	1830
Netherlands	2628	Netherlands	1581
Ireland	229	France	1031
Australia		Australia	403
UK	2447	UK	140
Norway		Norway	58
Total for Others	18300		17725
Others not Listed	602		26
Grand Total	18902		17751

Nonfat Dry Milk

PSD Table						
Country	Denmark					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	0	0	0	0	0
Production	22	22	35	34	25	30
Intra EC Imports	5	5	2	2	5	2
Other Imports	0	0	0	0	0	0
TOTAL Imports	5	5	2	2	5	2
TOTAL SUPPLY	27	27	37	36	30	32
Intra EC Exports	10	10	20	20	10	15
Other Exports	2	2	3	2	3	8
TOTAL Exports	12	12	23	22	13	23
Human Dom. Consumption	0	0	0	0	0	0
Other Use, Losses	15	15	14	14	17	9
Total Dom. Consumption	15	15	14	14	17	9
TOTAL Use	27	27	37	36	30	32
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	27	27	37	36	30	32
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Denmark		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Italy	3393	Italy	5183
Netherlands	2154	Netherlands	4177
Saudi Arabia	456	Chile	1970
Sweden	1155	Sweden	1739
UK	1605	UK	1572
Germany	723	Germany	891
Philippines	242	Japan	828
Spain	385	Spain	674
Singapore	425	Turkey	551
		Egypt	469
Total for Others	10538		18054
Others not Listed	1709		4436
Grand Total	12247		22490

Import Trade Matrix			
Country	Denmark		
Commodity	Dairy, Milk, Nonfat Dry		
Time period		Units:	
Imports for:			1
U.S.		U.S.	
Others		Others	
Total for Others	0		0
Others not Listed			
Grand Total	0		0

Whole Milk Powder

PSD Table						
Country	Denmark					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	2	2	2	2	1	1
Production	104	106	95	97	100	100
Intra EC Imports	1	1	1	1	0	1
Other Imports	0	0	0	0	0	0
TOTAL Imports	1	1	1	1	0	1
TOTAL SUPPLY	107	109	98	100	101	102
Intra EC Exports	6	8	8	8	8	9
Other Exports	84	84	75	75	80	79
TOTAL Exports	90	92	83	83	88	88
Human Dom. Consumption	9	9	8	9	8	7
Other Use, Losses	6	6	6	7	5	5
Total Dom. Consumption	15	15	14	16	13	12
TOTAL Use	105	107	97	99	101	100
Ending Stocks	2	2	1	1	0	2
TOTAL DISTRIBUTION	107	109	98	100	101	102
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Denmark		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Dominican Rep.	15851	Dominican Rep.	13935
Oman	3699	Oman	11064
Saudi Arabia	7075	Saudi Arabia	9197
Brazil	5901	Brazil	5853
Yemen	4784	Yemen	5234
Bangladesh	3469	Bangladesh	3890
Egypt	3196	Egypt	3769
Venezuela	14557	Italy	3349
Taiwan	2993	Nigeria	3289
Kuwait	3360	Sri Lanka	3180
Total for Others	64885		62760
Others not Listed	24738		19931
Grand Total	89623		82691

Import Trade Matrix			
Country	Denmark		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Netherlands	268	Netherlands	573
Germany	583	Germany	387
		Finland	355
Sweden	71	Sweden	214
		Belgium	144
		France	107
UK	40	UK	96
		Ireland	63
		Czech Rep.	2
		Austria	2
Total for Others	962		1943
Others not Listed	18		0
Grand Total	980		1943